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AUTHOR O'Hare, William; And Others
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ABSTRACT

This report discusses the results of a 1989 poll conducted by the Gallup Organization in which a representative sample of Americans were asked where they would set the poverty line. The poverty line in current use by the Federal Government was created in the mid-1960s, using data from the 1950s. Setting the poverty line involves a basic decision about the minimum standard of living a society considers acceptable, and below which a family should be considered poor. Adults were asked what amount of weekly income they would use as a poverty line for a family of four (husband, wife, and two children) in their community. The following findings are reported: (1) the average figure reported was $15,017 per year, which is $3,000, or 24 percent, higher than the Federal Government's poverty line; (2) responses varied according to whether respondents lived in a metropolitan area or outside of one, and according to the region in which they lived, but the respondents in every area set the poverty line higher than the Federal Government; (3) even if non-cash benefits were counted as income, the number of people considered poor according to the respondent's poverty line would be substantially higher than under the government's poverty measure, which does not count non-cash benefits. This discrepancy between the government's poverty measure and that recommended by the American public indicates the need for a re-examination of where to set the poverty line and what to count as income. Statistical data are included on eight tables and one graph. A list of 38 references is appended. (FMW)

REAL LIFE POVERTY IN AMERICA

Where the American Public Would Set the Poverty Line

A Center on Budget and Policy Priorities and Families USA Foundation Report

by

William O' Hare
Taynia Mann
Population Reference Bureau, Inc.

Kathryn Porter
Robert Greenstein
Center on Budget and Policy Priorities

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ERRATA

On page 20, Table II, the first line under the heading "Race" should read:

White (not Hispanic)	*15,174*	125

On page 24, in the second to the last paragraph, the third sentence should read: "Thus when the poverty *line* is set at a higher level, large numbers of elderly people fall under the line."

On page 33, Table VII, the first line of the table, beginning "All Persons," should not contain dollar signs.

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The Center on Budget and Policy Priorities is a nonprofit research organization that studies government spending and the programs and public policy issues that have an impact on low income Americans.

The Families USA Foundation is a nonprofit organization dedicated to preserving and strengthening the security and dignity of older Americans and their families.

William O'Hare is director of policy studies for the Population Reference Bureau. Taynia Mann is a research demographer for the same organization.

Kathryn Porter is research director for the Center on Budget and Policy Priorities. Robert Greenstein is the founder and director of the Center.

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SUMMARY

Deciding where to set the poverty line is central to measuring poverty in America. Setting the poverty line involves a basic decision about the minimum standard of living a society considers acceptable and below which a family should be considered poor. This decision cannot be settled by technical analysis alone. No technical methodology can determine what constitutes the minimum necessary for a decent standard of living.

In discussions of an appropriate poverty line for the nation, therefore, it is useful to know what level of income the American people think is needed to avoid poverty. This study discusses the results of a poll conducted by the Gallup Organization in which a representative sample of Americans were asked where they would set the poverty line in their communities.

The Study

Each month from July through October of 1989, the Gallup Organization asked a nationally representative sample of adult Americans the following question:

> People who have income below a certain level can be considered poor. That level is called the "poverty line." What amount of weekly income would you use as a poverty line for a family of four (husband, wife and two children) in this community?

The average level of weekly income given by respondents was converted to an annual figure and adjusted for inflation to make it comparable to the most

recent poverty line set by the federal government, which is for 1988. The figure for a family of four was used to create poverty lines for families of different sizes, using the same method as is used for the government's poverty lines.

The American Public's Poverty Line

According to the Gallup poll results, the American public thinks the poverty line should be higher than it is. The average figure reported by the respondents was $15,017 for a family of four -- nearly $3,000, or 24 percent, higher than the government's poverty line.

If the poverty line selected by the public were used, the number of Americans considered poor would be close to 45 million, instead of the nearly 32 million considered poor under the government measure.

Using the poverty line set by the American public, the poverty rate would be 18 percent, instead of the 13 percent considered poor using the government poverty line.

The poverty rate for children would increase from 19 percent under the government poverty line to 26 percent using the poverty line set by the American public. Poverty among the elderly would nearly double, increasing from 12 percent under the government's measure to 23 percent using the public's poverty line.

Geographic Variations in the Poverty Line

The survey question used in the Gallup poll was designed to show how people's perceptions of an appropriate poverty line varied according to where they lived. The question asked what level of income respondents would use as a poverty line *in their community.*

The answers to the survey question varied according to whether the respondents lived in a metropolitan area or outside a metropolitan area, and in which region of the country the respondents lived. Those living in metropolitan areas would set the poverty line at a higher level than those living in non-metropolitan areas. Those in the Western portion of the United States would set the highest regional poverty line, and those in the South and the Midwest would set the lowest regional poverty lines.

In every area of the country, however, the survey respondents set the poverty line for their community at a higher level than the government's poverty line.

These poll results can be used to determine the number of people who would be considered poor if the public's poverty line were varied by geographic area. This is done by setting poverty lines for each area at the average levels that poll respondents from those areas said should be used to measure poverty in their communities. This approach provides a rough approximation of variations in the cost of living among different areas of the country.

Using these geographically varied poverty lines, 44 million Americans would be considered poor. This is only slightly different from the 45 million said to be poor using the public's poverty line without any geographic variations. The total number of people considered poor does not change very much because, when the poverty line is varied by geographic area, decreases in some areas are offset by increases in others. Fewer people are counted as poor under the lower poverty lines used in non-metropolitan areas, in the Midwest, and in the South, but these reductions are offset by increases in the number of people considered poor under the higher poverty lines in metropolitan areas and in the West.

Even under the geographically varied poverty lines, more people are counted as poor in every geographic area than the number considered poor under the government poverty line. The difference is largest in the West, where the number of people falling below the poverty line set by poll respondents is 66 percent greater than the number considered poor under the government poverty line.

Counting Non-Cash Benefits as Income

Some analysts believe that when a family's income is compared to the poverty line, certain government benefits not in the form of cash -- such as food stamps or housing subsidies -- ought to be given a dollar value and counted as income. There are serious questions, however, about which benefits to count and how to determine a dollar value for these benefits.

Determining the value of health insurance benefits like Medicare and Medicaid poses the greatest problems. Unlike food and housing benefits, medical services are not used each month by the typical family enrolled in these programs. Furthermore, medical insurance now costs so much that assigning dollar values to Medicare and Medicaid, and counting these amounts as though they were cash

income to a poor family, can give a very unrealistic picture of the family's well-being.

Nevertheless, in this study we also examined the number of Americans who would be considered poor under the public's poverty line if non-cash benefits were counted as income. The results showed that even counting non-cash benefits as income and using the public's poverty line, the number of people considered poor would still be substantially higher than under the government's poverty measure, which does not count non-cash benefits.

If food and housing benefits were counted as income, the number of Americans considered poor under the public's poverty line would be about 43 million, or 18 percent of the American population. If medical benefits were also counted as income, the number of Americans considered poor would be 39 million, or 16 percent of the population.

How the Government Sets Its Poverty Line

The poverty line used by the federal government was created in the mid-1960s, using data from the 1950s. This measure was created by taking the cost of the least expensive food plan developed by the Department of Agriculture and multiplying it by three, because survey data showed that in 1955, the average family spent one-third of its budget on food. This poverty line is still in use today, although it is updated each year for inflation.

The poverty line has been subject to criticism for being increasingly out of date. Since the 1950s, the proportion of its budget the average family spends on food has declined. At the same time, spending on housing, health care, and child care has increased as a proportion of family budgets. Today, the average family spends less than one-fifth of its budget on food. If the poverty line were to be reconstructed, using the cost of the Agriculture Department's least expensive food plan but multiplying it by five rather than three to reflect current family spending patterns, the poverty line would be significantly higher than it is.

There have been other criticisms of the government's poverty line, as well. While the original poverty line was based on certain assumptions about what was needed for a minimally adequate standard of living, some analysts point out that what is considered necessary for an adequate standard of living changes over time. A century ago, electricity and indoor plumbing would not have been considered necessities. When the poverty line was established 25 years ago, relatively few mothers of young children worked outside the home, and few families paid for child care. Today, child care costs consume a substantial share of the budgets of

low income families. However, the method used to set the poverty line has never been updated to reflect these changes.

Other issues affecting the level at which the poverty line is set include whether to use before-tax or after-tax income in measuring poverty and how to adjust the poverty line for inflation. Also, the government's poverty line is lower for elderly families than for younger families, a distinction many analysts feel is unjustified.

Policy Implications of Changing the Poverty Line

The responses to the Gallup poll lead to a clear conclusion: the poverty line set by the federal government needs to be re-examined. In recent years, most of the attention of policy-makers and the media has been on whether to count non-cash benefits as income in measuring poverty. However, this is just one of a number of important issues that should be addressed.

A comprehensive re-examination of the poverty line should include where to set the poverty line, as well as what to count as income in measuring poverty.

The discrepancy between the government's poverty measure and where the American public would set the poverty line has significant implications for public policy. If the poverty line were set at the level the public believes is needed to avoid poverty, the number of Americans counted as poor would increase. This would likely affect public perceptions of the extent of poverty.

In addition, the poverty line is used to determine eligibility for several government benefit programs. In the 1970s and 1980s, as the government poverty line has fallen behind the public perception of an appropriate level for determining poverty, Congress has set income eligibility limits for a growing number of government benefit programs at levels above the poverty line.

In the food stamp program, families are eligible for benefits if they have incomes of up to 130 percent of the poverty line. The same income limit is used for free school lunches. In addition, under a law passed by Congress in 1989, pregnant women and young children are eligible for Medicaid if they have incomes up to 133 percent of the poverty line. The income limits used in these programs are much closer to the public's views of where the poverty line should be set than to the government's poverty measure.

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Figures & Tables

I. INTRODUCTION

To determine how many Americans are poor each year, the federal government compares their incomes with what is commonly known as the "poverty line." The poverty line is a set of dollar thresholds that vary according to family size. Those whose incomes fall below the poverty line are considered to be poor. In 1988, nearly 32 million people -- 13 percent of the U.S. population -- lived in poverty. 1988 is the latest year for which this information is available.

The government's figure for the number of people who are poor has a significant impact on the nation's anti-poverty policies. The number of people said to be poor affects public perceptions of the dimensions of the poverty problem. In addition, the poverty line is used to determine eligibility for several government benefit programs.

Because the government's measure of who is poor is so important, many Americans assume that the poverty line is based on a rigorous scientific determination of the level of income below which a family suffers serious deprivation. This is not the case. The poverty line was developed about 25 years ago, based only on two factors -- the cost of the Department of Agriculture's least expensive food plan, and survey data from the mid-1950s showing that the average American family spent about one-third of its budget on food. To set the poverty line, the cost of the food plan was multiplied by three. Since the 1950s, the proportion of its budget the average family spends on food has dropped considerably. However, the methodology used to set the poverty has never been revised.

In recent years, a growing number of economists and poverty analysts have suggested ways to improve and update the federal government's measure of who

is poor. Poverty measurement issues are also receiving increased attention by federal agencies.

Setting the poverty line is central to measuring poverty. It involves a decision about the minimum acceptable standard of living below which a family should be considered impoverished. This decision is as much a question of societal norms as it is a matter of technical determinations. Technical analyses alone cannot settle the question of what should be considered the minimum income a family needs to maintain a decent standard of living.

Accordingly, to help determine how to improve the measure of poverty, it would be useful to know the American public's perception of what level of income a family needs to avoid poverty. This study provides information on that important issue.

The study presents the results of a national survey in which a representative sample of Americans was asked what the poverty line should be in their community. The study also includes data showing how many Americans would be considered poor using the poverty line set by the public.

II. HOW THE POVERTY LINE WAS DEVELOPED

As the War on Poverty unfolded in the 1960s, policy-makers found that the government had no official measure of poverty. Without such a measure, officials could not tell whether they were winning or losing the war on poverty. Consequently, the government adopted a measure constructed by Mollie Orshansky, an analyst in the Social Security Administration.[1]

This poverty measure, based on the best data then available, used the cost of the Economy Food Plan -- the least expensive of four food plans developed by the Department of Agriculture -- to determine the smallest amount of money a family would need to purchase a nutritionally adequate diet. The poverty measure also was based on data from a 1955 survey showing that the average family spent about one-third of its budget on food. Orshansky reasoned that the level at which one-third of a family's income was no longer sufficient to afford the minimally adequate diet represented by the Economy Food Plan marked the point at which the family should be considered poor.

Accordingly, the Orshansky index took the cost of the Economy Food Plan and multiplied it by three to arrive at the poverty line.[2] For families of one or two persons, the cost of the Economy Food Plan was multiplied by a factor greater than three because of the proportionally greater non-food costs of smaller families.

In addition to adjusting the poverty line by family size, Orshansky set different dollar levels for farm and non-farm families, for families headed by single women and families headed by married couples, for families with different numbers of children, and, in families of one or two people, for the elderly and the non-elderly. She did this because the Department of Agriculture set the cost of

the Economy Food Plan at a lower level for women than for men, and at a lower level for children and the elderly than for non-elderly adults. Also, the information available at the time indicated that costs were lower for farm families than for those not living on farms because farm families could grow some of their own food.

The poverty line set by Orshansky in the 1960s still is used today. Each year the dollar figures used in the poverty line are updated for inflation so that the purchasing power of a poverty-level income remains the same.

In addition to the annual inflation updates, a few minor changes have been made in the poverty measure. In the early 1980s, the variations for farm and non-farm families, and for families headed by single women and families headed by married couples, were eliminated. The differentials for the elderly and for children remain.

The Current Poverty Lines

The poverty line was $12,092 for a family of four in 1988, the most recent year for which the federal government has published a poverty line. The poverty line varies with family size, ranging from $5,674 for an elderly single person to $24,133 for a family of nine or more persons.

Table I
Poverty Line for 1988
By Family Size

Family of one person, under age 65	$6,155
Family of one person, 65 or older	5,674
Family of two, head under age 65	7,958
Family of two, head 65 or older	7,158
Family of three	9,435
Family of four	12,092
Family of five	14,305
Family of six	16,149
Family of seven	18,248
Family of eight	20,279
Family of nine or more	24,133

III. PROBLEMS IN MEASURING POVERTY

Many analysts who study poverty issues have suggested ways to update or improve the government's measure of the number of poor people. This chapter presents some of the issues that surround the poverty measure.

Data Used in Development of Poverty Line Now Out of Date

Poverty line calculations are based on the assumption that the average family spends one-third of its income on food, an assumption reflecting expenditure patterns in the mid-1950s. Since then, other costs such as housing have risen more rapidly than food costs. As a result, food costs now make up a much smaller proportion of family expenditures than in the mid-1950s, while expenditures for items such as housing make up a larger share of family budgets. As early as 1968, government analysts suggested updating the poverty line with more recent information on the percentage of family budgets allocated to food costs.

The Department of Labor's 1988 Consumer Expenditure Survey, which is the most complete survey of the expenditures of U.S. households, found that food costs made up 14 percent of the total expenses of the average family.[3] The Bureau of Labor Statistics' Consumer Price Index, the most widely used national measure of price changes, assumes food costs are about 18 percent of family expenses.[4]

If the poverty line were to be reconstructed using current food expenditure data, the cost of food would be multiplied by a number far larger than three. This is because food costs now constitute less than one-third of family budgets, while other costs account for more than two-thirds. This change would result in a

considerably higher poverty line. One recent attempt to reconstruct the poverty line, using current food costs and Consumer Price Index data on the proportion of expenditures going for food, produced a poverty line of $19,482 for a family of four in 1987.[5] This figure is 68 percent higher than the government's poverty line for that year.

In addition, some analysts have expressed concerns about the use of the Economy Food Plan to determine the cost of a very inexpensive but nutritionally adequate diet. Although the Economy Food Plan was designed by Department of Agriculture nutritionists to meet a family's nutritional requirements, most shoppers spending as little as the cost of the Economy Food Plan do not obtain a diet that meets their nutritional needs.

In 1975, the Economy Food Plan was replaced by the Thrifty Food Plan, an updated plan designed to cost the same as the Economy Food Plan. The 1977-78 Nationwide Food Consumption Survey indicated that fewer than one-tenth of the families spending an amount equal to the cost of the Thrifty Food Plan -- which was the same as the cost of the Economy Food Plan -- were able to purchase a diet that met Recommended Dietary Allowances for all major nutrients. Another quarter of the families came close to meeting the RDAs for the major nutrients. The remaining two-thirds of the families spending this little on food consumed diets containing less than 80 percent of the RDAs for all of the 11 major nutrients.[6]

The families spending an amount equal to the cost of the Thrifty Food Plan have difficulty obtaining adequate diets because both the Economy and Thrifty Food Plans deviate substantially from the normal diets of low income people. Food cost data from 1981 indicated that the average low income family's diet cost 24 percent more than the cost of the Thrifty Food Plan. In designing the plan, the Department of Agriculture departed from customary food consumption patterns of low income families in order to limit the cost of the food plan, while also meeting nutritional requirements.[7]

Alternative Methods of Constructing a Poverty Line

In the past decade, analysts have begun to examine other ways of constructing the poverty line. Rather than basing it just on the cost of food and multiplying this cost by three or some larger number, some analysts have suggested basing the poverty line on the cost of a "market basket" of items needed by low income families.[8] Such a market basket could include housing, clothing, medical care, transportation, and other necessities, as well as food. The cost of this market basket would be updated periodically to account for inflation.

Some analysts have also suggested periodically updating the composition of the market basket. While the original poverty line was based on a study of typical family expenditure patterns in the 1950s, societal norms about what is a necessity change over time.[9] As Patricia Ruggles, a prominent expert on poverty issues, has noted, "If we had been constructing a 'market basket' of necessary goods a century ago, for example, we would hardly have included electricity or indoor plumbing. Few would argue that the poor can do without these amenities today."[10]

Ruggles also points out that when the poverty line was established, few mothers of young children worked outside the home, and few families paid for child care. Today, by contrast, child care costs consume a substantial share of the budgets of many low income families. And because more families now have two earners, work expenses such as commuting costs take a larger share of total income, as well.

More than 200 years ago, Adam Smith defined necessities as those commodities "the custom of the country renders it indecent for creditable people, even of the lowest order, to be without."[11] Over time, the "custom of the country" changes to reflect changes such as the use of electricity and plumbing and the need for child care. To provide a realistic measure of hardship, the poverty definition needs to be updated periodically to reflect these changes.

At times in the past, the federal government has created a "market basket" measure that estimated the expenses of a low income family. Until 1981, the Bureau of Labor Statistics calculated three budgets for a hypothetical family of four living in an urban area. These budgets were based on the cost of a market basket of items needed by the family to live at a lower, an intermediate, and a higher standard of living. Compared with the intermediate and higher budgets, the lower budget assumed that the family ate lower-priced foods, ate fewer meals away from home, lived in rented rather than owned housing, and had less medical insurance, among other differences.

In 1981, the Bureau of Labor Statistics lower budget for an urban family of four was $15,323 -- 65 percent higher than the poverty line for that year. Although the lower budget was not designed to be a poverty line, this difference illustrates how far below a modest market basket standard the current poverty line is.

Example of a Poverty Line Budget

An October 1989 study conducted by the staff of the Joint Economic Committee of Congress suggests that the current poverty thresholds can be unrealistic for many families. The study cites the example of a working mother with two children and earnings exactly at the poverty line. If this mother spent $50 a week on child care, spent no more than 30 percent of her income for housing -- the housing affordability standard established by the Department of Housing and Urban Development -- and held her food costs to the amount of the Agriculture Department's least costly food plan, she would have just $30 a month left after taxes. This $30 per month would have to cover all her other needs, including clothing, medical care, and household items such as soap.

Moreover, the situation facing such a family would likely be even more difficult than this, because the family's housing costs probably would consume considerably more than 30 percent of its income. If the family spent only 30 percent of its income for housing, it would be spending just $226 a month for rent and utilities -- a highly improbable situation in many cities unless the family lived in public or subsidized housing. (Fewer than one-third of the poor do.) In most areas, HUD's estimate of the cost of a moderately priced two-bedroom apartment far exceeds $226 a month.

Geographic Variation in Costs

The government's poverty line is the same for the entire country; it does not vary with cost-of-living differences from one location to another. Some analysts feel there should be variations in the poverty line to account for these differences.

Until 1981, the Bureau of Labor Statistics calculated the cost of its three family budgets in 24 metropolitan areas and four non-metropolitan regions. While the cost of the family budget items varied significantly, the difference was not as large as some might think. The lower family budget was 19 percent higher in the highest-cost metropolitan area (Seattle-Everett, Washington) than in the lowest-cost metropolitan area (Dallas). In addition to the variation among metropolitan areas, the BLS found that, on average, costs were about six percent higher in metropolitan areas than in non-metropolitan locations.

While it seems reasonable to vary the poverty line to reflect cost-of-living differences among areas, there are serious technical difficulties in doing so. A government study of the poverty line in 1976 found that none of the possible sources of information on geographic variations in living costs contained enough data to set valid poverty lines for different areas.[12] There still is no good measure of cost-of-living differences among metropolitan areas or between metropolitan and non-metropolitan locations.

Even if there were information on cost-of-living differences among areas, other problems would remain. For example, adjusting the poverty line for differences in the cost of living among major metropolitan areas would not reflect significant differences in living costs *within* a single metropolitan area. Costs in Manhattan are not the same as costs in less expensive parts of northeastern New Jersey, but both places are part of a single metropolitan area. Creating a separate poverty line for the New York metropolitan area would miss these differences.

The same problem occurs in trying to compensate for cost differences among states or regions of the country. Variations in living costs within a state or region can be as wide as the variations among states or regions. Thus, adjusting the poverty line for variations in living costs among regions, states, or even cities would be difficult and would not compensate for all geographic differences in the cost of living.

These technical difficulties in figuring out how to adjust the poverty line to reflect geographic variations in living costs are the principal reason the present poverty line contains no such adjustments. Some analysts believe, however, that even imperfect geographic variations in the poverty line would be better than the current approach of no geographic variations at all.

Variations Based on Age

Although the poverty line is not adjusted for geographic differences in the cost of living, it does vary by the age of the head of the family. For one- or two-person families, there are two poverty lines -- one for families headed by someone under 65 and a lower poverty line for families headed by an elderly person. As shown in Table 1, the poverty line for a single elderly person was $5,674 in 1988, nearly $500 below the poverty line for a single person younger than 65. The poverty line for a two-person elderly family was $7,158, exactly $800 lower than the poverty line for younger two-person families.

These differences in the elderly and non-elderly poverty lines may sound modest, but they have large impacts. Ruggles notes that in 1986, the poverty rate for the elderly, based on the lower elderly poverty lines, was *below* the poverty rate for the U.S. population as a whole. Yet if the same poverty lines had been used for the elderly as are used for everyone else, the elderly poverty rate would have *exceeded* the poverty rate for the population as a whole.[13] Moreover, the number of elderly classified as poor would have risen by nearly one-fourth.

The use of lower poverty lines for elderly people stems from the way the poverty line was originally designed. Under the Department of Agriculture's least

costly food plan, elderly people were assumed to need less food than younger people did. As a result, when the poverty line was established, the elderly poverty lines were set lower than the poverty lines for families in younger age brackets.

In effect, this method of setting the poverty lines assumes that because food costs for the elderly are lower, their other expenses are lower as well. Yet the data do not support the idea that because elderly people need less food than younger people, they also need less of other basic necessities. Certain other expenses, such as the cost of medical care, take a larger portion of the budgets of the elderly than of younger people. The 1988 Consumer Expenditure Survey shows that elderly households spent an average of 12.5 percent of their income on health care costs, compared with only five percent of income by younger families.[14]

For this reason, many analysts feel that variations in the poverty line based on age are not justified. As Ruggles observes in *Drawing the Line*, "Without some convincing evidence for consistently lower needs for the elderly, therefore, it is difficult to justify the continuing use of a lower poverty standard for this population."[15] In 1980, similar distinctions in poverty thresholds for families headed by single women and for farm residents were eliminated.

It is important to note that nearly all government benefit programs that base income eligibility on the poverty line use the same poverty line for both elderly and non-elderly people. This suggests that policy-makers see the distinction between the elderly and non-elderly poverty lines as questionable.[16]

Changes in Costs over Time

The poverty line is updated each year to allow for inflation. In other words, the poverty line increases each year by the same percentage as the overall increase in the cost of living. Thus, the purchasing power of a poverty-level income is supposed to remain constant from year to year.

Some analysts feel, however, that the method used to adjust the poverty line for inflation overestimated the price increases that occurred between the late 1960s and the early 1980s. The adjustments in the poverty line are based on changes in the Bureau of Labor Statistics' Consumer Price Index, the most widely used index of the national inflation rate. In 1983 the Bureau of Labor Statistics modified the way it calculated the CPI to measure changes in housing costs more accurately. Since 1983, the poverty line has been adjusted using the revised CPI.

It is generally accepted that in the years before the CPI was revised, the old CPI overstated the amount of inflation because it overstated increases in housing costs. Some analysts argue that because the CPI overestimated inflation from the late 1960s to the early 1980s, the poverty line was increased too much during that period. They contend that the annual adjustments made in the poverty line for these years should be recalculated retroactively to reflect what inflation would have been if the revised CPI, rather than the old CPI, had been used at that time. Recalculating the annual adjustments in the poverty line for these years, based on the revised CPI, would make the current poverty line lower than it is.

On the other hand, some experts feel that using the Consumer Price Index may understate price increases for the items that low income people buy. The CPI is based on the costs of goods and services purchased by a typical urban American family. Because their incomes are lower, poor people spend a larger portion of their incomes on necessities, and have less for discretionary purchases, than a typical middle-class family. If the costs of basic necessities increase faster than the costs of discretionary items, then using the CPI will not adjust the poverty line enough to compensate for price increases faced by the poor.

Bureau of Labor Statistics data suggest that from 1967 to 1982, the overall costs of basic necessities -- food, shelter, utilities, and medical care -- may have risen more rapidly than did the revised CPI. Data from the Census Bureau also show that a larger proportion of low income families' expenditures goes for these basic necessities than is assumed in the revised CPI.[17]

The Value of Assets

The government poverty line is based on current income; it does not consider a family's savings or assets. However, two families with the same income may be in very different financial circumstances if one has substantial savings and the other has no assets.[18] Thus, some experts have suggested that the poverty measure be modified to take into account the assets held by low income families.[19]

This is another area where technical difficulties intrude, however. Counting assets when measuring poverty would be a complicated task. Information on the assets of American families is more difficult to obtain than information on their incomes, and data on assets generally are deemed less reliable than income data. For several decades, income data have been collected in annual surveys conducted by the Census Bureau. Information on assets is not collected in these surveys.

In addition, assets cannot be counted in quite the same way as income. Assets constitute a stock of rescurces that affect a family's financial position differently than the flow of income does. A family that receives $500 each month in earnings or Social Security payments is in a very different position than a family with $500 in a savings account.

One way to account for assets would be to set an asset limit in addition to the poverty line. Families would be considered poor only if their incomes were below the poverty line and their assets were below the asset limit.[20]

This method, however, would complicate the calculations of the number of people who are poor. Moreover, it is not clear that this effort would result in much change in the number of people who are counted as poor. Relatively few low income families have any substantial amounts of assets. According to Census Bureau information, more than half of all people who are poor in any month have no assets at all.[21] (Assets are defined here as savings, securities, and other forms of assets that could be readily converted to cash and used to tide a family over a spell of poverty. Assets such as the value of a home are not included in these data.) Four-fifths of all poor people have less than $1,000 in assets. Many of those with larger amounts of assets are 65 or older.

Using Before-Tax or After-Tax Income

Currently, poverty status is determined by comparing a family's income, before taxes are taken out, with the poverty line. However, the poverty line was constructed originally on the basis of data showing how families spent their *after*-tax income. If the poverty line had been based on before-tax income, it would be higher than it is, because the cost of the Department of Agriculture's food plan would be multiplied by a factor greater than three. Comparing a family's *before*-tax income with a poverty line based on *after*-tax expenses is tantamount to assuming that money withheld from paychecks for income and payroll taxes is available for food, shelter, and other household expenses.

This is a significant issue because many poor households pay taxes. Census Bureau data from 1986 show that eight percent of poor households paid federal income taxes, 13 percent paid state income taxes, and 43 percent paid payroll -- or Social Security -- taxes.[22] Since then, the Tax Reform Act of 1986 has removed most poor families from federal income tax rolls, and changes in some states have lowered the proportion of poor families paying state income tax. However, a significant number still pay state income taxes and some pay local income taxes as well.

Benefits Not in the Form of Cash

In comparing a family's income with the poverty line, all forms of cash are counted as income, including public assistance payments. However, benefits that are not in the form of cash, such as food stamps, are not counted. Many analysts feel that some non-cash government benefits ought to be included as income when determining the number of people who are poor.

The primary reason given for including non-cash benefits in the measure of poverty is that these benefits increase a family's standard of living, just as additional income would. In addition, some analysts say that failing to count non-cash benefits as income creates a false impression that expenditures on such programs as food stamps or housing assistance do not reduce poverty.

The seriousness of these concerns has increased as the amount of non-cash government benefits has risen. In 1965, when the poverty line was developed, only about one-quarter of federal expenditures for benefits restricted to low income families were in the form of non-cash payments for things like food or housing.[23] Today, nearly two-thirds of all federal expenditures for these benefits is in a non-cash form.[24]

There are difficulties, however, in attempting to count non-cash benefits as income when measuring poverty. While determining the value of such benefits as food stamps -- which consist of coupons with a stated dollar value -- is fairly straightforward, other non-cash benefits can be exceedingly hard to value. A good example is medical benefits. Medical benefits include Medicaid, the government-funded program that pays for medical care for certain groups of the poor, and Medicare, the government-sponsored medical insurance program for the elderly of all income levels.

Medical benefits are not like food stamps or housing subsidies that are used to buy food or pay the rent each month. Instead, medical benefits consist of insurance coverage, which may or may not be used in a given month. Moreover, medical insurance costs so much that counting the cost of the insurance as though it were cash income to a poor family results in a very large amount of cash being attributed to the family. Few poor families would spend so much of their incomes on medical insurance.

Some analysts have suggested that Medicaid and Medicare be valued at the cost to the government of providing the medical services, spread over the particular populations covered by these programs. Using this method, for example, the government's annual Medicaid and Medicare costs for paying doctor, hospital, and other medical bills for elderly people in a particular state would be

divided by the number of elderly people enrolled in the programs in that state. The resulting per-person cost would be counted as income when determining whether each elderly person's income fell below the poverty line.

This method, which the Census Bureau used on an experimental basis until recently, causes serious distortions, however. It results in very large amounts of income being assigned to groups, such as the elderly and disabled, that have high medical care costs. Using this method to derive an income value for Medicaid and Medicare coverage would mean that, in the average state, all elderly couples with both Medicaid and Medicare coverage automatically would be considered to be above the poverty line, regardless of whether they had any cash income at all.[25]

The Census Bureau has recently begun using another experimental approach to establish the income value of medical benefits. Under the newer method, the Census Bureau computes an amount for a family's basic food and housing costs using the Agriculture Department's least costly food plan and the Department of Housing and Urban Development's estimate of rents for moderately-priced housing, and subtracts this amount from the family's income. The remaining income, which is supposed to represent the income the family has left for needs other than food and housing, is then compared with the per-person cost of Medicaid and Medicare. If the per-person cost of Medicaid and Medicare coverage equals or exceeds the income remaining after food and housing costs are subtracted, the dollar value assigned to the medical benefits is set at a level equal to the full amount of the family's remaining income.

While an improvement over the earlier method, the newer experimental approach has serious shortcomings as well. It effectively assumes that all income not allocated for food and housing is available for the cost of medical care. No allowance is made for any other expenses, such as clothing, transportation to work or to stores, or other household necessities.

In 1985, the Census Bureau convened a conference of poverty experts to discuss issues relating to the counting of non-cash benefits. The experts reached a consensus that food and housing benefits should be counted as income when measuring poverty. Many of the experts also recommended that after-tax rather than pre-tax income be used. The experts could not agree on whether medical benefits should be counted as income; some believed these benefits should be counted, while others felt they should not. However, they did reach a consensus that the poverty line should be increased if the value of medical benefits were to be counted as income. As the Census Bureau reported, "Most participants at the noncash conference agreed that poverty thresholds would have to be changed if the value of medical care were to be included in the income definition."[26]

Earlier government studies of the non-cash benefits issue reached similar conclusions. A major study of the poverty line in 1976 recommended that, "if in-kind benefits are added to income, in order to maintain consistency between income and the poverty threshold (as currently defined), the threshold should be increased....."[27] Another government study of the poverty line in 1973 reached the same conclusion.[28]

The question of counting certain non-cash benefits as income has impacts beyond the poverty population. A quarter to a third of employee compensation is in the form of non-cash benefits, such as health and life insurance.[29] The arguments in favor of counting non-cash benefits as income when measuring poverty also would apply to the counting of non-cash benefits in determining the incomes of non-poor families. This would increase significantly the amounts counted as income for middle and upper income families.

The nature of health insurance benefits, and the problems inherent in trying to place an income value on them, has led many analysts to recommend that such benefits *not* be counted as income when poverty is measured. As Harold Watts, a leading analyst of poverty issues, has noted,

> The medical reimbursement programs are more difficult, but my earnest suggestion is that they be ignored [in measuring poverty] whether they are provided by public programs such as Medicare and Medicaid or by employers as a part of compensation. It is consistent both with the past practice and the abstract concept [of poverty] to regard most medical reimbursements as coverage for *extra*-ordinary needs. It places medical "security" in the same category as public education....We have managed to understand poverty fairly well without accounting for educational benefits; we can do the same with medical benefits. The alternative in both cases is to make some very dubious calculation of the "value" of these eminently non-fungible resources to add to the fungible ones. To be consistent the calculations should be made for all persons -- not just the poor -- and in the end one has a measure that is very remote from anyone's direct experience.[30]

IV. THE PUBLIC'S POVERTY LINE

There are two basic types of issues related to the measurement of poverty: issues concerning the level at which the poverty line should be set, and issues concerning what should be counted as income in measuring a family's poverty status. Determining what types of income or benefits to count and how to count them are regarded as largely technical questions. Setting the level of the poverty line, however, has a much larger element of judgment involved. No technical analysis can decide the minimum income needed to maintain a decent standard of living. This is as much a question of societal norms as of technical determinations. Moreover, the decision on how and where to set the poverty line can also affect the number of low income families who receive federal benefits, since eligibility limits for several benefit programs are based on the poverty line.

In recent years, more attention has been focused on whether and how to count various non-cash benefits when measuring poverty than on updating or modifying the poverty line. Lately, however, interest has increased in how the poverty line is set. In the spring of 1990, the Urban Institute published a book examining this issue -- *Drawing the Line*, by Patricia Ruggles. In June 1990, a hearing of the Congressional Joint Economic Committee focused further attention on this issue.

One element largely absent from the recent discussions concerning the poverty line, however, has been the views of the American public. Since where to set the poverty line is in part a societal judgement, it is useful to know what the public thinks about this issue. An accurate gauge of the public's perception of the minimum level of income needed to avoid poverty would add important new information to this debate.

To obtain this information, a series of polls by The Gallup Organization, Inc. were commissioned. This study presents the results of these polls.

How this Study was Conducted

A representative sample of approximately 1,000 adults were polled by Gallup each month from July through October 1989. The Gallup poll respondents were asked the following question:

> People who have income below a certain level can be considered poor. That level is called the "poverty line." What amount of weekly income would you use as a poverty line for a family of four (husband, wife and two children) in this community?

Those who did not respond to this question were eliminated from the analysis, leaving a final sample of 3,511 respondents. While this was the first time this question had been asked in the Gallup poll, a similar question had been asked in past years. The similar question was:

> What is the smallest amount of money a family of four (husband, wife and two children) needs each week to get along in this community?

In the 1989 poll, a decision was made not to use the question that had been asked in the past because it is not clear how "the smallest amount of money a family...needs each week to get along" is related to the poverty line. Instead, with the help of the Gallup Organization, the new question was devised to ask specifically about the public perception of where the poverty line should be set. For comparison purposes, Gallup was commissioned to ask the "get along" question in a different survey.

When the question about how much money is needed "to get along" was asked, the income levels provided by respondents were considerably higher than the income given in response to the question about where the poverty line should be set. When translated into an annual income level, the average answer to the question about how much is needed "to get along" was $20,913, or 73 percent higher than the government's poverty line.

The Public's Poverty Line

The Gallup poll asked respondents for the weekly income they would use as the poverty line. The weekly income figures given by the respondents were then converted to annual incomes, and were adjusted for inflation to make them comparable to the most recent government poverty line, which is for 1988.[31]

In answer to the question about where the poverty line should be set in their community, the average income level given by respondents was $15,017 for a family of four.[32] This is nearly $3,000 -- or 24 percent -- higher than the government poverty line of $12,092.

If the public's perception of what constitutes an appropriate poverty line were used as the poverty standard, the number of poor in 1988 would have been close to 45 million -- 40 percent more than the nearly 32 million reported by the Census Bureau using the government poverty line.

Responses Vary for Different Groups

The overall national poverty line set by the public -- $15,017 -- is an average of the answers given by all respondents. Like most averages, it masks some differences in the responses of different groups of people.

Respondents' views on where the poverty line should be set varied with their income, education, and other factors. Nevertheless, every group in the sample believed the poverty line should be significantly higher than the government poverty standard (see Table II).

Not surprisingly, the more income respondents have, the more income they think is needed to avoid poverty. However, even those with incomes of less than $10,000 believe the poverty line should be set higher than the current government poverty line.

Respondents' perceptions of an appropriate poverty line also varied by education level, with the amount believed to be needed to avoid poverty generally rising with the education level of respondents. This may be because people with higher incomes tend to have higher levels of education. As noted, perceptions of the amount of money needed to avoid poverty increased as respondents' incomes rose.

Table II
Poverty Lines Reported
By Different Types of Respondents
(Figures Adjusted to July 1988 Dollars)

	Average Poverty Line Reported	As Percent of Government Poverty Line
<u>Family Income</u>		
Less than $10,000	$13,296	110
$10-$24,999	14,444	119
$25-$49,999	15,017	124
$50,000 or more	16,790	139
<u>Education</u>		
Grade School	13,661	113
High School	14,548	120
Trade/Tech.	15,643	129
Some College	16,164	134
College Grad	15,799	131
<u>Age</u>		
18-24	14,913	123
25-34	15,226	126
35-44	15,226	126
45-54	14,756	122
55-64	14,913	123
65+	14,756	122
<u>Sex</u>		
Male	15,017	124
Female	14,965	124
<u>Race</u>		
White (not Hispanic)	5,174	125
Black (not Hispanic)	15,747	130
Other race (not Hispanic)	15,486	128
Hispanic (all races)	12,410	103

In addition, people with higher education levels and higher incomes may live in communities with higher housing costs. The higher poverty line figures reported by respondents with higher incomes and more education may in part reflect higher costs of living in their communities.

The reported poverty line figures also varied slightly by the age and race of respondents.[33] The sex of the respondents made almost no difference in the poverty line reported.

The average response to the Gallup question for any particular group should not be viewed as the appropriate poverty line for that group. Every respondent was asked to identify an appropriate poverty line for the same hypothetical family. There is no reason the poverty line should vary by characteristics such as the education of the adults in the family or by racial or ethnic group.

Geographic Variations in the Poverty Line

The survey question used in the Gallup polls was designed to show how people's perception of an appropriate poverty line varied according to where they lived. The survey question asked respondents what level of income they would use as a poverty line for a family of four *in their community.*

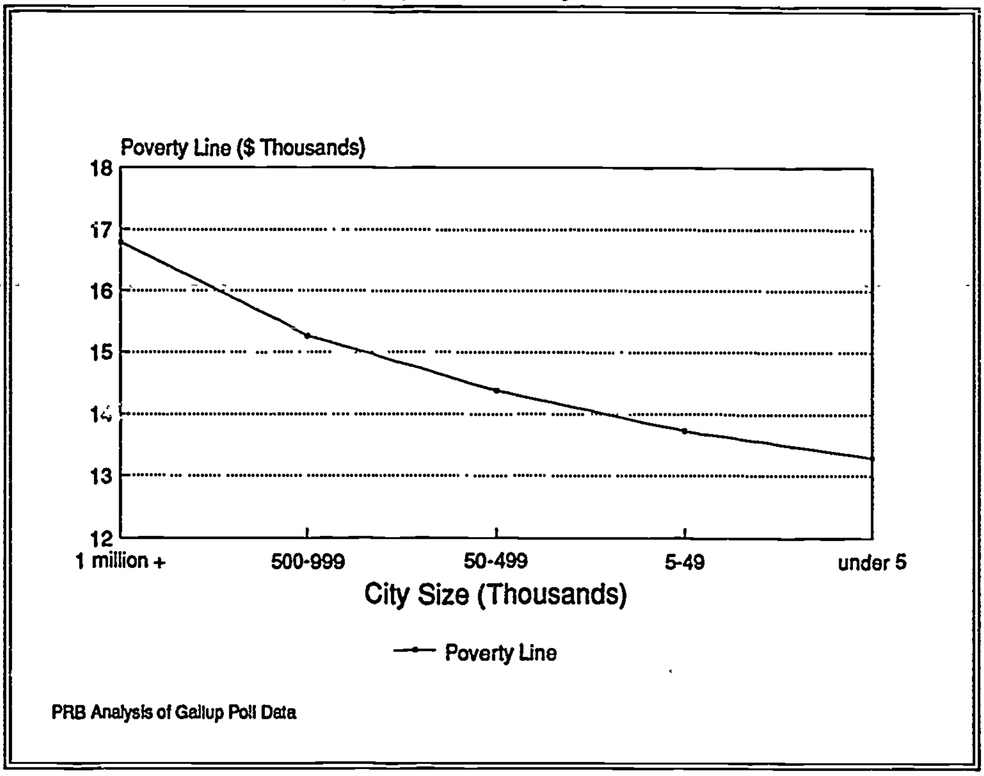
Overall, there is a relatively simple relationship between what respondents thought the poverty line should be and the size of their community. The larger the community, the higher the poverty line. This relationship is shown in Figure 1.

The relationship between community size and the poverty line set by respondents in those communities is also reflected in Table III. This table indicates that people living in metropolitan areas thought the poverty line in their communities should be $15,539, some 29 percent higher than the government poverty line. By comparison, respondents living outside of metropolitan areas set the poverty line for their communities at $13,244, or 10 percent higher than the government poverty line.

Respondent's views on where the poverty line should be set also varied by region, although the regional variations were not especially large. Respondents in the West set the poverty line at $16,790 -- approximately 39 percent higher than the government poverty line. Respondents in the Midwest and South set the poverty line at $14,235 -- about 18 percent higher than the government's level.

Respondents living in the Northeast set the poverty line approximately 28 percent higher than the government poverty standard.[34]

Figure 1
Perception of Poverty Line
by City Size of Respondent



Combining the data on regional and metropolitan variations, the highest poverty line was set by respondents from metropolitan areas in the West. The lowest poverty lines were given by respondents in non-metropolitan areas in the South and the Midwest. Respondents in Western metropolitan areas said that families of four needed $17,155 to avoid poverty, while respondents in non-metropolitan areas in the Midwest gave an average figure of $12,566. Even the respondents in non-metropolitan areas in the South and Midwest, who provided the lowest poverty lines, set levels almost $500 above the government poverty line.

Table III
Poverty Line Reported
By Metropolitan Status and Region of Respondent
(Figures Adjusted to July 1988 Dollars)

	Average Poverty Line Reported	As Percent of Government Poverty Line
National Average	$15,017	124
Region		
Northeast	15,486	128
Midwest	14,235	118
South	14,235	118
West	16,790	139
Metro Status		
Metro	15,539	129
Non-metro	13,244	110
Region and Metro Status		
Metro		
Northeast	15,695	130
Midwest	15,069	125
South	14,652	121
West	17,155	142
Non-metro		
Northeast	13,922	115
Midwest	12,566	104
South	12,879	107
West	15,121	125

Poverty Rates Based on the Public's Poverty Line

The percentage of Americans considered to be poor would increase if the public's view of where the poverty line should be set were used instead of the government measure. Using the poverty line set by the public, close to 45 million Americans would be considered poor in 1988 -- 18 percent of all Americans rather than the 13 percent reflected in the government poverty figures. The poverty rate would increase for all population groups, but the increases would be larger for some groups than for others (see Table IV).

The poverty rate in 1988 for children under 18 would be 26 percent using the public's poverty line, instead of the 19 percent considered to be poor using the government poverty line. The number of children in poverty in 1988 was 13 million under the government poverty line. It would be 17.5 million if the poverty line were set at a level reflecting the public's views.

The largest increase would occur in the poverty rate for the elderly. The poverty rate for those 65 or older would be nearly twice as high under the public's poverty line as under the government poverty line. While 12 percent of all elderly people are considered poor under the government measure, 23 percent would be said to be poor if the public's poverty line were used. The plight of widows, most of whom are elderly, is also more apparent when the public's perception of an appropriate poverty line is used. One of every five widows is considered poor using the government poverty measure, but one of every three has income below the poverty threshold set by the public.

There are two reasons for this large increase in poverty rates among the elderly. Many elderly people have incomes just slightly above the government poverty line. Thus when the poverty is set at a higher level, large numbers of elderly people fall under the line. In addition, the government poverty line includes a separate, lower poverty standard for the elderly, while the poverty line based on the results of the Gallup poll does not. (As discussed earlier, most analysts do not believe a separate, lower poverty line for the elderly is justified.)

Low income working families constitute another group that would be significantly affected by using the public's perception of an appropriate poverty line. Since many working families have incomes that place them slightly above the government poverty line, using the higher poverty line reported by the public would increase significantly the number of working people considered to be poor.

Table IV
Number of Persons in Poverty and Poverty Rate
Using Government and Public's Poverty Lines

	Government Poverty Line		Public's Poverty Line	
	Number of Poor (thousands)	Poverty Rate	Number of Poor (thousands)	Poverty Rate
All Persons	31,745	13%	44,585	18%
Age				
Children Age 0-18	13,069	19	17,542	26
Working Age 19-64	15,194	10	20,513	14
Elderly Age 65+	3,481	12	6,530	23
Education				
Less Than High School*	22,126	21	30,341	29
High School Graduate	6,490	9	9,632	14
Some College	2,047	6	3,019	9
College Graduate	1,081	3	1,592	5
Sex				
Male	13,599	11	18,952	16
Female	18,146	15	25,632	20
Race				
White (not Hispanic)	15,172	8	23,275	13
Black (not Hispanic)	9,136	31	11,523	39
Other races (not Hispanic)	2,079	19	2,747	25
Hispanic (all races)	5,357	27	7,040	35

* Including Children

Table V indicates that when the public's perception of an appropriate poverty line is used, the poverty rate for workers is nine percent, significantly higher than the six percent poverty rate obtained using the government poverty line. The number of workers who would be poor using the poverty line provided by the public is 11 million, a 45 percent increase over the number considered poor using the government poverty standard. Among full-time year-round workers, the number in poverty under the public's definition is 3 million, compared with 2 million using the government poverty definition. These figures indicate that if the public's poverty line were used, almost one of every 10 American workers would be considered poor.

Table V
Working Poor
Using Government and Public's Poverty Lines

	Government Poverty Line		Public's Poverty Line	
	Number of Poor (thousands)	Poverty Rate	Number of Poor (thousands)	Poverty Rate
All Persons	31,745	13%	44,585	18%
All Workers	7,892	6	11,435	9
Full-Year Workers				
Full Time	1,890	2	3,246	4
Part Time	824	8	1,225	13
Part-Year Workers				
Full Time	2,972	14	4,079	19
Part Time	2,206	17	2,885	22

Using the public's poverty line instead of the government measure would not only change the number and percentage of various groups counted as poor, it would also alter somewhat the composition of the population in poverty. Elderly people would make up a larger share of the poor if the public's poverty line were used. The proportion of the poor who are elderly would increase from 11 percent under the government poverty line to almost 15 percent under the poverty line as

set by the public. For other age groups, the proportion does not change by more than a couple of percentage points.

V. VARIATIONS IN THE PUBLIC'S POVERTY LINE

In the previous chapter, we examined the number of Americans who would be considered poor if the poverty line set by respondents to the Gallup poll were used to measure poverty. In doing so, we followed the practice used by the government of applying the same poverty line thresholds in all areas of the country. We also followed the government's practice of counting cash income, but not counting non-cash benefits.

The poverty line set by the Gallup poll respondents can also be used, however, to explore other approaches to measuring poverty. This chapter uses the public's poverty line to examine two alternative ways of counting the poor -- varying the poverty line by geographic areas and counting non-cash benefits as income.

Varying the Poverty Line by Region

While some analysts believe the government poverty line should be varied to reflect regional and metropolitan/non-metropolitan differences in living costs, lack of adequate data has prevented this from being done.

The question asked in the Gallup poll, however, was designed to capture geographic differences in respondents' perceptions of where the poverty line should be. Therefore, the responses to the Gallup poll, unlike the data on which the government poverty line is based, can be used to set poverty lines that vary by region and by metropolitan status. These poverty lines give us a sense of what the impact might be of measuring poverty in a manner that included geographic variations.

Using this approach, eight poverty lines were created from the responses to the Gallup poll. Two poverty lines -- one for people living in metropolitan areas and one for those in non-metropolitan areas -- were created in each of the four Census regions.

The poverty lines in each of these eight geographic areas were set at the average income level that the poll respondents in each of the areas gave as an appropriate poverty line for their community. These eight geographically varied poverty lines are shown in the bottom half of Table III. The number of people who would be classified as poor using these geographically varied poverty lines was then examined in each of the eight geographic areas and for the nation as a whole.

Using the public's perception of where the poverty line should be, and varying this poverty standard by geographic area, produces a national count of poor people only slightly different from the count produced when a single national poverty line is used. The total number of people considered to be poor under the eight geographically varied poverty lines is nearly 44 million.. When the single national poverty line derived from the poll responses is used, the number found to be poor is slightly under 45 million.

The reason the total number of people considered poor does not change very much when the poverty line is varied by geographic areas is that decreases in some areas are offset by increases in other areas. The smaller number of people counted as poor under the lower poverty lines used in non-metropolitan, Midwestern, and Southern areas is offset by the larger number counted as poor under the higher poverty lines in the West and in metropolitan areas.

Even when these geographically varied poverty lines are used, the number of people counted as poor in every geographic area is larger than the number considered poor under the government poverty line. The difference is greatest in the West. The number of people in the West who fall below the poverty line set by poll respondents from that region is 66 percent greater than the number of people in the West considered poor under the government poverty line. The size of the difference is due to the much higher poverty line set by respondents living in the West. The poverty line for the Western region is the highest of all the regional poverty lines, apparently because of the high concentration of Westerners living in relatively expensive metropolitan areas such as Seattle, Los Angeles, San Francisco, and Honolulu.

Table VI
Number of People in Poverty and Poverty Rate
Using Government and Public's Poverty Lines
With Geographic Variations

	Government Poverty Line		Public's Poverty Line with Geographic Variations	
	Number of Poor (thousands)	Poverty Rate	Number of Poor (thousands)	Poverty Rate
All Persons	31,745	13	43,855	18
Region				
Northeast	5,089	10	7,538	15
Midwest	6,804	11	9,156	15
South	13,530	16	17,528	21
West	6,322	13	10,494	21
Region and Metro Status				
Metro	23,026	12	33,638	18
Northeast	4,467	10	6,683	15
Midwest	4,894	11	6,874	16
South	8,627	14	11,435	19
West	5,038	12	8,646	21
Non-metro	8,571	16	10,217	19
Northeast	616	10	798	13
Midwest	1,910	11	2,247	13
South	4,871	21	5,567	24
West	1,174	17	1,605	24

Counting Non-Cash Benefits as Income

Many analysts believe that when a family's income is compared with the poverty line, some government benefits not in the form of cash ought to be given a dollar value and counted as income. To examine what impact this would have on the number of people in poverty, we recalculated the number of people who

would be considered poor, using the public's view of where the poverty line should be set and including non-cash benefits in family incomes.

We first calculated the number of people who would be considered poor if food stamps, public and subsidized housing, school lunches, and home energy assistance were counted as income. The dollar values we gave to these benefits were identical to the values assigned to them by the Census Bureau under its experimental measures of poverty that include non-cash benefits.[35]

When the value of these non-cash benefits is counted as income, and the public's perception of where the poverty line should be set is used, the number of people counted as poor is 43 million, or about 18 percent of the population. This is very similar to the almost 45 million determined to be poor using the public's poverty line but counting only cash income. It is about 11 million greater than the number of people considered poor under the government poverty measure, which does not include non-cash benefits as income.

We also calculated the number of people who would be classified as poor if medical benefits, as well as the other non-cash benefits, were counted. Attempting to assign a dollar value to Medicaid and Medicare coverage and to count this value as family income is fraught with conceptual and technical difficulties. Many experts who favor counting food and housing benefits as income in measuring poverty believe that medical benefits cannot and should not be counted in this way.

In the data presented here, we used the Census Bureau's most recent experimental method of assigning a dollar value to Medicaid and Medicare coverage. This method is problematic because it assumes that all income not needed for food and housing is available for medical care costs. However, the Census Bureau method is the only technique currently available for assigning a value to medical benefits.

When medical benefits are counted as income along with food and housing benefits, the number of people found to be poor, using the public's perception of where the poverty line should be set, is 39.2 million (see Table VII). This is 7.5 million more than the number considered poor under the government poverty measure, even though the government measure does not count any non-cash benefits as income.

Table VII
Number of People in Poverty
Using Government and Public's Poverty Lines
And Including the Value of Non-cash Benefits

	Government Poverty Line (thousands)	Public's Poverty Line: Without Non-Cash Benefits (thousands)	Public's Poverty Line: Including Food, Housing Benefits (thousands)	Public's Poverty Line: Including Food, Housing and Medical (thousands)
All Persons	$31,745	$44,585	$43,305	$39,214
Education				
Less than high school*	22,126	30,341	29,437	26,698
High school grad	6,490	9,632	9,343	8,340
Some college	2,047	3,019	2,949	2,707
College graduate	1,081	1,592	1,577	1,469
Age				
Children 0-18	13,069	17,542	16,900	16,058
Working age 19-64	15,194	20,513	19,981	18,707
Elderly 65+	3,481	6,530	6,425	4,449
Sex				
Male	13,599	18,952	18,394	16,857
Female	18,146	25,632	24,911	22,357
Race				
White (not Hispanic)	15,172	23,275	22,595	19,919
Black (not Hispanic)	9,136	11,523	11,217	10,417
Other races (not HIspanic)	2,079	2,747	2,672	2,460
Hispanic (all races)	5,357	7,040	6,821	6,419

* Including children

Table VIII
Poverty Rates
Using Government and Public's Poverty Lines
And Including the Value of Non-cash Benefits

	Government Poverty Line	Public's Poverty Line: Without Non-Cash Benefits	Public's Poverty Line: Including Food, Housing Benefits	Public's Poverty Line: Including Food, Housing and Medical
All Persons	13%	18%	18%	16%
Education				
Less than high school*	21	29	28	25
High school grad	9	14	13	12
Some college	6	9	9	8
College graduate	3	5	5	4
Age				
Children 0-18	19	26	25	24
Working age 19-64	10	14	14	13
Elderly 65+	12	23	22	15
Sex				
Male	11	16	16	14
Female	15	20	20	18
Race				
White (not Hispanic)	8	13	12	11
Black (not Hispanic)	31	40	38	36
Other races (not Hispanic)	19	25	25	23
Hispanic (all races)	27	35	34	32

* Including children

Including non-cash benefits as income has its largest impact on the elderly, due primarily to their eligibility for Medicare. The number of people age 65 and older who would be classified as poor using the public's poverty line, and counting the value of non-cash benefits including medical benefits, is 4.4 million. This is still a million more than are classified as poor under the government's definition.

Moreover, these estimates of the number of people who would be considered poor if non-cash benefits were counted as income understate the poverty count This is because these estimates are based on *before*-tax rather than *after*-tax income. At the Census Bureau's poverty measurement conference in 1985, many experts who favored counting non-cash benefits also urged that after-tax income be used. If non-cash benefits such as food stamps are to be counted as income because they increase the resources available to a family for consumption, then taxes withheld from paychecks -- and thus not available for consumption -- should be excluded.

The information needed to produce an estimate of the number of people who would be considered poor under the public's poverty line if non-cash benefits were counted as income but after-tax income were used was not available at the time our study was done. Past Census Bureau analyses have demonstrated, however, that using after-tax rather than before-tax incomes when measuring poverty raises the number of people considered to be poor.[36]

VI. IMPLICATIONS FOR ANTI-POVERTY POLICY

The Gallup poll responses on where Americans would set the poverty line lead to a clear conclusion. The current federal government poverty line needs to be re-examined. Since the question of where to set the poverty line is, in significant part, a societal judgment about the minimal living conditions considered to be acceptable, it makes sense to take the views of the public into account in making such a judgment.

The information presented here demonstrates that the public's view is that to avoid poverty, a family needs a level of income greater than the amount reflected in the government's poverty line. If the poverty line were set at the average income level the public believes necessary to avoid poverty, the number and percentage of Americans counted as poor would increase. This increase would occur regardless of whether the poverty line were varied by geographic area or whether non-cash benefits were counted as income.

In other words, millions of people not considered poor under the government's poverty measure would be considered poor by most of the American public.

This discrepancy between the public's perception of poverty and the government's poverty line is apparent in other ways, as well. Traditionally, the poverty line has been used to determine who is eligible for certain government benefits. In the 1970s and 80s, as the government poverty line has fallen behind the public perception of an appropriate level for determining poverty status, Congress has set income eligibility limits for a growing number of government benefit programs at levels above the government poverty line.

In the food stamp program, for example, families are eligible for benefits if they have incomes up to 130 percent of the poverty line, a level the Reagan Administration proposed in 1981 for determining who is "truly needy." Similarly, school children are eligible for a free school lunch if their families have incomes up to 130 percent of the poverty line.

Under a law passed in 1989, pregnant women and young children up to age six are eligible for Medicaid in all states if their incomes do not exceed 133 percent of the poverty line. In addition, households are eligible for Low Income Home Energy Assistance Program benefits if their incomes are below 110 to 150 percent of the poverty line, depending on the state in which they live.

The federally prescribed income limits used in all these programs are much closer to the public's views of where the poverty line should be set than to the government poverty standard.

Recent Discussions of the Poverty Measure

Curiously, however, the fact that the poverty line is set at a rather low level -- and that the number of Americans living in poverty may be understated -- is not widely appreciated. To the contrary, news accounts in recent years may have led many Americans to believe that the government poverty measure overstates rather than understates the poverty problem.

This has occurred largely because of the considerable attention given to the fact that the government poverty measure does not count non-cash benefits, along with the lack of attention given to other concerns about measuring poverty, such as whether the poverty line is set too low. If non-cash benefits are counted as income but no other aspect of the poverty measure is changed, the number of people considered to be poor does decline.

The attention given to the non-cash benefits issue increased markedly in the early 1980s, when the Congress directed the Census Bureau to construct an alternative measure of poverty that counted non-cash benefits. The alternative measure published by the Census Bureau counted non-cash benefits as income without making any adjustments in the poverty line.

This action by the Census Bureau reflected the view of statisticians and analysts at the Census Bureau that their role encompasses various technical questions about what forms of compensation should be counted as income when poverty is measured and how this compensation should be valued. The Census Bureau regards decisions about whether to revise the way the poverty line is set,

however, as primarily non-technical. Thus, such questions are viewed as decisions for much higher levels in the Executive Branch.

As a result, the Census Bureau concerned itself during the 1980s with whether and how to count non-cash benefits, along with matters concerning whether the measures used to adjust the poverty line for inflation in the 1970s and early 1980s were technically flawed. In the last few years, the Census Bureau has also begun producing experimental figures on the poverty status of individuals based on after-tax income.

This debate over how to measure poverty also took on somewhat of a political coloration in the 1980s. When annual poverty data were released each year, officials in the Reagan White House and spokespersons for some conservative organizations usually issued statements contending that the official poverty count was "too high" and that the government measure seriously overstated the poverty problem. These statements stressed the failure of the government poverty measure to reflect the value of non-cash benefits and cited the Census Bureau's alternative measures of poverty that included non-cash benefits as providing the truer picture.

This strategy proved rather effective. News coverage frequently focused on whether non-cash benefits should be counted or should continue to be treated as though they had no value. When the issue is framed in this manner, it often appears as though the government poverty measure exaggerates the extent of poverty. Other critical questions regarding the poverty measure -- such as its reliance on before-tax rather than after-tax income, the use of a lower poverty line for the elderly despite little analytic basis for such an approach, and its basis in outdated assumptions about food consumption patterns -- generally have not received media coverage to the same extent.

Informed debate on whether the poverty threshold might be set at an unrealistically low level was also set back when Bureau of Labor Statistics ceased publishing its lowest family budget. The "lower budget" was the only alternative government measure of the minimum amount of income that low income families need. Annual publication of the lower budget was ended after the budget for 1981 was issued. The BLS lower level budget was significant because it had consistently presented a lower level living standard that was several thousand dollars higher than the poverty line.

Despite these developments, when the Census Bureau convened a conference of poverty analysts in late 1985, most analysts at the conference disagreed with the notion that non-cash benefits should be counted as income without any other change in the poverty standard. To be sure, the consensus of the experts was that food and housing benefits should be counted. But many also recommended using

after-tax rather than before-tax income. Past Census Bureau analyses have indicated that when food and housing benefits are counted -- but after-tax rather than before-tax income is used -- the net change in the number of people said to be poor is relatively modest.[37]

Moreover, the analysts and experts at the conference split over the question of whether medical benefits such as Medicare and Medicaid should be counted as income. The conferees did agree that if medical benefits were to be counted, the poverty line should be raised. They concluded it was not justifiable to count medical benefits as though they represented income without adjusting the poverty line upward.

The consensus on this last point holds considerable significance. It is precisely the counting of medical benefits, without any adjustment in the poverty line, that results in the much lower poverty counts regularly cited by those who contend the government poverty measure substantially overstates the poverty problem.

Where to Go from Here

A re-examination of how we measure poverty is overdue. Such an examination needs to focus on both of the critical questions: what should be counted as income and where should the poverty line be set.

At one point in the mid-1980s, the Office of Management and Budget began taking steps toward counting non-cash benefits as income without changing the poverty line. Opposition in Congress, along with numerous technical questions raised by the General Accounting Office and other analysts concerning the methods being considered to value the non-cash benefits, played a role in preventing this change. The concerns raised by the GAO and other analysts also led to the 1985 Census Bureau conference. One result of the conference, and of the GAO's work, was a call for technical refinements in how non-cash benefits are measured. This is a course the Census Bureau is now pursuing.

As a result, the move to begin counting non-cash benefits in measuring poverty was postponed, pending more technical work. Such a move may occur in the future, however, quite possibly at some point in the 1990s.

Unfortunately, the equally important issues involved in examining the methods used to set the poverty line have not received comparable attention, although a recent book by Patricia Ruggles of the Urban Institute and a recent hearing of the Joint Economic Committee have focused on this matter.[38]

As a consequence, when the Census Bureau has completed more technical work, there could be a move to begin counting non-cash benefits without adjusting the poverty thresholds. This would significantly reduce the number of Americans, especially the elderly, said to be poor. It might also lead to proposals to count non-cash benefits as income when a family's eligibility and benefit levels for various government benefit programs are determined. This could make substantial numbers of low income people ineligible for various forms of assistance, while reducing benefits for many others.

What is needed is a reconsideration of how the poverty line is set, along with an examination of what should count as income, as part of a comprehensive review of the poverty measure. There is little dispute that the current poverty line rests on a weak foundation, relying on consumption patterns from the 1950s that no longer hold true.

The polling data presented in this study show that the current poverty line has one additional shortcoming. It is out of touch with what the American public believes to be the proper threshold for a minimum standard of living.

Endnotes

1. Mollie Orshansky, "Children of the Poor," *Social Security Bulletin*, Vol. 26, July 1963, p. 3 - 13; and Mollie Orshansky, "Counting the Poor: Another Look at the Poverty Profile," *Social Security Bulletin*, Vol. 28, January 1985, p. 3 - 29.

2. Originally, Orshansky had developed two sets of poverty lines. The one that was adopted as the government's poverty line was based on the cost of the Economy Food Plan, multiplied by three. Orshansky's other poverty line was based on the cost of the Department of Agriculture's Low Cost Food Plan, also multiplied by three. Of the Department's four food plans, the Economy Plan was the least costly and the Low Cost Plan was the next-to-least costly. Although slightly more expensive than the Economy Plan, the Low Cost Plan also was intended to represent the food expenditures of low income families. Many nutritional experts felt that the Low Cost Plan was a more realistic representation of the food expenditures of low income families than the Economy Plan.

   Because the Low Cost Plan was more costly than the Economy Plan, the poverty lines Orshansky developed based on the Low Cost Plan were higher than those based on the Economy Plan. In adopting an official poverty measure, the federal government selected the lower figures -- those based on the Economy Plan.

3. U.S. Bureau of Labor Statistics, USDL Press Release No. 90-96, Feb. 26, 1990.

4. Patricia Ruggles, *Drawing the Line: Alternative Poverty Measures and Their Implications for Public Policy*, Appendix A, The Urban Institute Press, 1990.

5. Patricia Ruggles, *Drawing the Line*, Appendix A.

6. Betty Peterkin and Richard L. Kerr, "Food Stamp Allotment and Diets of U.S. Households," *Family Economics Review*, Winter 1982.

7. The Economy and Thrifty Food Plans both consist of lists of different types of foods that families can consume to obtain nutritious diets. The Economy Food Plan was developed some 30 years ago.

   In 1975 the Economy Food Plan was revised to take into account new data on consumption patterns and nutritional requirements. The revised plan was renamed the Thrifty Food Plan. During this revision, the cost of the Thrifty Food Plan was preset at the same level as the cost of the Economy Plan. (The cost of the Economy Food Plan and then the Thrifty Food Plan have been regularly updated to allow for food price inflation.)

   In developing the Thrifty Food Plan, Department of Agriculture analysts used information on human nutritional requirements, the nutrient content of foods, and the usual diets of low income families. To produce the revised food plan, the analysts took a list of the types of foods usually consumed by low income families and adjusted it to ensure that the

foods in the plan met nutritional requirements and that the total cost of the plan did not exceed the preset cost.

In 1983, the Thrifty Food Plan was further revised, again keeping the cost at the same level as the previous plan. During the 1983 revision, analysts working on the plan found that the cost of the average diet consumed by low income families was 24 percent higher than the preset amount. This indicates that the preset cost of the Thrifty Food Plan is substantially lower than the amount low income families normally spend on food.

(Betty Peterkin, Andrea J. Blum, Richard L. Kerr, and Linda E. Cleveland, *The Thrifty Food Plan, 1983*, CND(Adm.) 365, U.S. Department of Agriculture, August 1983.)

8. See, for example, J. Goodman and M. Grainer, "The Market Basket Approach for Deriving Poverty Thresholds: A Feasibility Study," Technical Assistance Research Programs, Inc., Washington, D.C., August 1981.

9. Changes in the average income of Americans also affect what they see as the amount of income necessary to live decently. As average income has increased over time, the public perception of the amount of money a family needs has also increased. This can be seen in a number of studies done over the past 60 years that estimated what a minimum budget for a family would cost. The estimates of the cost of a minimum budget have increased at a rate similar to the increase in the income of the average family. In addition, polls of the American people asking them for the minimum amount of money a family needed to get by have shown a similar trend. The smallest amount of money perceived to be needed by a family has risen as the average income of the American people has increased.

10. Patricia Ruggles, "The Poverty Line -- Too Low for the 90's," *New York Times*, April 26, 1990.

11. Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, Book V, Chapter II, Part II, Article 4th, 1776.

12. U.S. Department of Health, Education, and Welfare, *The Measure of Poverty: A Report to Congress as Mandated by the Education Amendments of 1974*, April 1976.

13. Ruggles, *Drawing the Line.*

14. American Association of Retired Persons, Statement before the Joint Economic Committee, U.S. Congress, June 14, 1990, Table 1.

15. Ruggles, *Drawing the Line*, p. 71.

16. The government's poverty measure also does not include one group of low income elderly people. Under the government measure, all related people who live together are considered a single family whose income is compared to the poverty line. An elderly person living with relatives would not be counted as poor if the income of the entire family -- both the elderly person and his or her relatives -- was above the poverty line, regardless of the elderly person's own income. Thus, some elderly people living with relatives are not considered poor even though their own incomes are below the poverty line.

17. See Center on Budget and Policy Priorities, "Proposals to Lower the Poverty Line Pose Serious Problems," October 1989.

18. The income produced by assets, such as the interest received from a savings account, is counted as part of a family's income and is taken into account in measuring the family's poverty status.

19. The Census Bureau has created an experimental measure that attempts to capture the value of owning one type of asset -- a home -- in measuring poverty status. This experimental method estimates the interest that would be received if the homeowner's equity in the home were instead placed in a financial investment, such as a bond. The homeowner's property taxes are subtracted from the estimated interest earnings, and the remainder is counted as income to the family.

The purpose of assigning some income to homeowners, when measuring their poverty status under this experimental poverty measure, is to recognize a home's value as an asset. Homeowners, especially those who own their homes free of a mortgage, are in a better financial position than families with equivalent incomes that rent their homes. On the other hand, a home is an asset that cannot be readily turned into cash if a family becomes temporarily poor. In most cases, the family cannot use the equity for living expenses without selling the home or obtaining a home equity loan, which may be difficult for an unemployed or low income family to obtain.

20. This approach has been suggested by Patricia Ruggles in *Drawing the Line*, pp. 150-151.

21. Ruggles, *Drawing the Line*, Table 7.3.

22. Bureau of the Census, U.S. Department of Commerce, *Household After-Tax Income: 1986*, June 1988.

23. Bureau of the Census, U.S. Department of Commerce, *Estimates of Poverty Including the Value of Noncash Benefits: 1983*, August 1984.

24. Bureau of the Census, U.S. Department of Commerce, *Estimates of Poverty Including the Value of Noncash Benefits: 1987*, August 1988.

25. Under this method of valuing medical benefits -- the "market value" approach -- the combined value of Medicaid and Medicare for an elderly couple in the average state was placed at $7,514 in 1987. The poverty line for an elderly couple was $6,872 in that year. (Bureau of the Census, U.S. Department of Commerce, *Estimates of Poverty Including the Value of Noncash Benefits: 1987*, August 1988, Tables B-5 and B-6.)

26. Bureau of the Census, U.S. Department of Commerce, *Estimates of Poverty Including the Value of Noncash Benefits: 1987*, p. 10.

27. Janice Peskin, *The Measure of Poverty -- Technical Paper VII: In-Kind Income and the Measurement of Poverty*, U.S. Department of Health, Education, and Welfare, 1976, p. 32.

28. See final report of the federal interagency Subcommittee on Updating the Poverty Threshold, August 1973.

29. Bureau of the Census, U.S. Department of Commerce, *Statistical Abstract of the United States, 1989*, January 1989.

30. Harold W. Watts, "Have Our Measures of Poverty Become Poorer?," *Focus*, Institute for Research on Poverty, University of Wisconsin-Madison, Summer 1986.

31. The figures for July through October 1989 were deflated to July 1988 dollars using the monthly Consumer Price Index.

32. Using the poverty line for a family of four that was given by respondents, we created a set of poverty lines that vary by family size, just as the government poverty line varies by family size. The public's poverty lines for families of other than four people were created using the same adjustments for family size that are used for the government poverty line. For example, the government poverty line for a one-person family is 49.8 percent of the poverty line for a four-person family, so we multiplied the public's four-person poverty line ($15,017) by .498 to derive the poverty line for a one-person family. Unlike the official poverty thresholds, however, we did not set a special lower threshold for the elderly.

    Some analysts feel that the family size adjustments used in the government poverty line underestimate the needs of smaller families and should be modified. We used these adjustments because they are the only ones readily available, and because we wanted to make the figures used for the public's poverty line as comparable as possible with the government poverty line.

33. Respondents were divided into four mutually exclusive groups by race and ethnic group: 1) whites who were not of Hispanic origin, 2) blacks not of Hispanic origin, 3) other races not of Hispanic origin, and 4) those whites, blacks, and others who were of Hispanic origin.

34. The Northeast includes the states of Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, and Vermont. The Midwest includes Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Wisconsin. The South includes Alabama, Arkansas, Delaware, District of Columbia, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, and West Virginia. The West includes Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, and Wyoming.

35. The Census Bureau values food stamps at their face value. The value of a school lunch is the amount of the subsidy paid to schools by the federal government for each lunch served. Housing benefits are valued by comparing the rents paid by families that received subsidies with average market rents. The value of low income home energy assistance benefits is based on families' answers to a Census question about how much energy assistance the family received.

36. Families with incomes in the $15,000 range typically pay about 9.3 percent of their income in federal and state income taxes and payroll (Social Security) taxes. (Bureau of the Census, U.S. Department of Commerce, *Household After-Tax Income: 1985*, 1987, Tables 6 and 7.) Consequently, in order for a family to have an after-tax income of $15,017, it would need a gross income of roughly $16,400. If we had used $16,400 as our poverty threshold, the number of poor would have been considerably larger.

37. In 1988, the net effect of counting food and housing benefits as income and subtracting federal income and payroll taxes would be an eight percent reduction in the number of Americans considered to be poor, if the government poverty line was used. This reduction amounts to a drop in the poverty count of 2.5 million people. The reduction would be somewhat less if state and local income taxes were also subtracted from income. (Committee on Ways and Means, U.S. House of Representatives, *1990 Green Book: Background Material and Data on Programs within the Jurisdiction of the Committee on Ways and Means – Overview of Entitlement Programs*, June 5, 1990, p. 1041.)

38. Some work on poverty measurement issues is being conducted by the President's Council of Economic Advisers. It is not known where this work will lead, but the council is expected to issue something later in 1990.